Canada Pension Plan

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Factsheet

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INTRODUCTION

Financial security is a very important consideration for retiring farmers. Pension benefits from the Canada Pension Plan (CPP) provide retirement income, and the CPP pays benefits when a contributor becomes disabled or to the family of a deceased contributor.

The objectives of this Factsheet are to:

- provide an understanding of Canada Pension Plan benefits
- help the reader understand how the Canada Pension Plan calculates the benefits for farmers and other self-employed individuals
- explain the financial benefits possible through maximum contributions to the Canada Pension Plan
- show the contributions necessary to achieve maximum benefits from the Canada Pension Plan

HOW CPP WORKS

The Canada Pension Plan has been operating since 1966 and is designed to protect families against income loss due to retirement, disability or death.

The Canada Pension Plan is a contributory plan, funded entirely by the contributions from employees, employers and self-employed persons. Additional funding is obtained by the investments of the Canada Pension Plan Investment Fund.

One month after turning 18, Canadians begin to participate in the plan through compulsory contributions on earnings from employment or self-employment — from salary or wages received as an employee or from net earnings from self-employment as defined by the *Income Tax Act*.

The amount of the contribution is based on annual earnings above a minimum (the year's Basic Exemption) to a maximum (the year's Maximum Pensionable Earnings). The Basic Exemption and the Maximum Pensionable Earnings amounts change over time. For 2006, the Maximum Pensionable Earnings were $42,100 and the Basic Exemption was $3,500. In dollar terms, employees and their employers each contributed a maximum of $1,910.70 on average earnings in 2006.

CPP benefits include:

- retirement income
- disability benefits
- a lump-sum death benefit
- benefits for children of disabled and/or deceased contributors
- benefits for the surviving spouse/common-law partner of a deceased contributor

CHANGES TO CPP

Changes were implemented to the Canada Pension Plan in 1998 to ensure that the CPP is affordable to future generations and can be sustained in the face of an aging population, increasing longevity and the retirement of the baby boom generation.

FULLER FUNDING

- The CPP is moving from pay-as-you-go financing to fuller funding designed to build a larger reserve fund. It is expected to grow in value from about 2 years of benefits currently to about 4–5 years of benefits.
- Contribution rates have risen over the last 4 years. Employees and employers each contribute half of the total contributions. Self-employed people pay both portions. The contribution rate will not rise above 9.9% of contributory earnings.
- The year's basic exemption — the first $3,500 of earnings on which no contributions are paid — will be maintained and frozen.

Ministry of Agriculture, Food and Rural Affairs

Ontario

Table 1. Contribution rates.

Year	Previous Rate* (%)	Adjusted Rate (%)
1987	3.8	–
1988	4	–
1989	4.2	–
1990	4.4	–
1991	4.6	–
1992	4.8	–
1993	5	
1994	5.2	
1995	5.4	
1996	5.6	
1997	5.85	6
1998	6.1	6.4
1999	6.35	7
2000	6.6	7.8
2001	6.85	8.6
2002	7.1	9.4
2003	7.35	9.9
2004	7.6	9.9
2005	7.85	9.9
2006	8.1	9.9
2007	8.3	9.9
2008	8.5	9.9
2009	8.7	9.9
2010	8.9	9.9
2011	9.1	9.9
2012	9.3	9.9
2013	9.5	9.9
2014	9.7	9.9
2015	9.9	9.9
2016	10.1	9.9
2030	14.2	9.9

* Previous Rate indicates the old contribution rates as a percentage of your income to a maximum, while Adjusted Rate is the percentage that is now being used.

The contribution rates for 1987 to 2030 are shown in Table 1, *Contribution rates.*

WHAT REMAINS THE SAME

- All retired CPP pensioners or anyone over 65 as of December 31, 1997, are not affected by the changes. Anyone currently receiving CPP disability benefits, survivor benefits or combined benefits is also not affected unless they subsequently become eligible for another benefit under the Plan.
- All benefits under the CPP will remain fully indexed to inflation.
- The ages of retirement — early, normal or late — remain unchanged.

CONTRIBUTORY PERIOD

The length of time an individual makes contributions to the plan is called the contributory period. The contributory period starts on January 1, 1966, or 1 month after the individual reaches 18 years of age and continues until the individual terminates contributions because of death, the month before retirement starts or automatically at age 70.

Since the beginning of the plan, a record of yearly pensionable earnings and contributions is maintained and updated regularly, using information supplied by the Canada Revenue Agency (formerly called the Canada Customs and Revenue Agency). Each contributor is mailed an updated statement of pensionable earnings and contributions once a year. You may also apply to receive a statement at any other time. To do this, complete an Application for Statement of Earnings, which is available from the nearest Service Canada office. The application may only be submitted and signed by the contributor or his or her legal representative.

RETIREMENT PENSION

An individual is eligible to receive a monthly pension if he or she has been credited with contributions to the Plan in at least 1 year and has either reached 65 years of age or is between 60 and 64 and has wholly or substantially ceased working. If you choose to receive retirement pension between age 60 and 64, the amount of pension will be reduced by 0.5% for each month that you are under age 65. The maximum reduction is 30% at age 60. If you delay receiving your pension until you are between 65 and 70 years of age, the amount of your pension will increase by 0.5% for each month you are over 65 to a maximum of 30% at age 70.

The monthly pension received varies between individuals. To ensure that the value of the pension is kept up-to-date yearly, pensionable earnings are indexed to reflect the growth in average wages to the present. Average wages for 1966 ($5,000) is indexed to equal in value average wages of 1986 ($25,800). To protect the pension against the years when earnings were low, the following periods could be excluded when pension is calculated:

- low-earning periods spent rearing children under 7
- low earning months after age 65
- 15% of your remaining contributory period when your earnings were the lowest

Once the low-earning periods have been removed, average adjusted earnings are calculated. At age 65, 25% of the average adjusted earnings is available for retirement pension.

Example: Jim has made maximum contributions to the Canada Pension Plan since the Plan began in 1966. He retired in January 1999. His retirement benefits can be calculated from Table 2, *Benefit calculations*, Column 6, to be $751.67.

SURVIVOR BENEFITS

A survivor's pension is a benefit that is payable to the estate, the surviving spouse/common-law partner and the dependent children of the deceased Canada Pension Plan contributor. There are three types of survivor pensions:

- a monthly pension for the surviving spouse or common-law partner
- a monthly benefit for the dependent children of deceased contributors
- a lump sum benefit payable to or on behalf of the estate of the deceased contributor

To qualify for survivor benefits, a contributor must have made contributions in at least 3 years. If your "contributory period" is longer than 9 years, you must have contributed in one-third of the calendar years in your contributory period or 10 calendar years, whichever is the lesser time period. The "contributory period" is the total span of time during your life when you may contribute to the Canada Pension Plan.

The amount of the surviving spouse's/common-law partner's pension is related to the amount of the contributor's retirement pension. When the surviving spouse is 65 years or over, the benefit available will equal 60% of the retirement pension. When the surviving spouse is between 45 and 65 years of age, the benefit will be a flat rate portion, plus 37.5% of the retirement benefit.

Example: Jim began drawing maximum retirement benefits in January 1999. In July, Jim died. Jim's wife, Marjorie, who is 66, can calculate her maximum survivor benefits from Table 2, Column 8, to be $414.46 per month. The maximum death benefit payable to Jim's estate would be calculated from Table 2, Column 7, to be $2,500.

DISABILITY PENSION

The CPP is intended to help replace the income of persons in the labour force who become severely disabled and can no longer earn a living.

There are two types of disability pensions:

- monthly benefit payable to the disabled contributor
- monthly benefit for the dependent children of the disabled contributor

To qualify for Canada Pension Plan disability benefits, you must have made contributions to the CPP in 4 out of the last 6 years, on earnings that are at least 10% of the year's maximum pensionable earnings. You must be under 65 years of age and have not been in receipt of a Canada Pension Plan retirement pension for longer than 6 months, unless disability occurred prior to the sixth month. There are also provisions for late applicants.

For those receiving disability benefits at the time of retirement at age 65, instead of calculating the retirement pension based on the year's maximum pensionable earnings, the calculation is based on the year's maximum pensionable earnings at the time of disablement and indexed to age 65.

See Table 2, *Benefit calculations*, Column 11, for disability pension calculations.

CREDIT SPLITTING

Canada Pension Plan credits are based on contributions that each worker makes to the plan. These credits are built up over years and are used to determine the amount of future CPP benefits.

The Canada Pension Plan recognizes that both spouses earn Canada Pension Plan credits equally during the time they live together, even if one of the spouses was not in the paid labour force. The plan allows for the equal splitting of these credits in the event of divorce or separation of legal spouses, or separation of parties of common-law relationships.

Credit splitting takes place if the spouses/common-law partners lived together for at least 12 consecutive months and the marriage ended in divorce or annulment. The period of separation must be at least 12 consecutive months and an application must be received from either spouse in order to indicate credit splitting.

Table 2. Benefit calculations.

Indexing (%)	Year	Maximum Pensionable Earning ($)	Exemption ($)	Maximum Employee Employer Contribution ($)	Maximum Monthly Retirement Benefit ($)	Maximum Death Benefit ($)	Maximum Survivor's Benefit <65 ($)	Maximum Survivor's Benefit >+65 ($)	Flat Rate Component of Various Benefits	Maximum Disability ($)
	1966	5,000	600	79.20						
	1967	5,000	600	79.20	19.97					
	1968	5,100	600	81.00	30.58	510.00	64.82	62.92	25.50	
	1969	5,200	600	82.80	41.62	520.00	65.85	63.75	26.01	
	1970	5,300	600	84.60	53.26	530.00	67.16	65.00	26.53	106.43
	1971	5,400	600	86.40	65.33	540.00	68.47	66.25	27.06	109.88
	1972	5,500	600	88.20	77.81	550.00	69.79	67.50	27.60	111.98
	1973	5,600	600	90.00	90.71	560.00	71.12	68.75	28.15	114.09
8.20	1974	6,600	700	106.20	109.60	660.00	79.86	73.75	33.76	125.95
10.40	1975	7,400	700	120.60	134.97	740.00	88.31	81.67	37.27	139.35
11.20	1976	8,300	800	135.00	154.86	830.00	99.51	92.92	41.44	157.59
8.20	1977	9,300	900	151.20	173.61	930.00	109.94	104.17	44.84	175.05
7.50	1978	10,400	1,000	169.20	194.44	1,040.00	121.11	116.66	48.19	194.02
9.00	1979	11,700	1,100	190.80	218.06	1,170.00	134.28	130.84	52.51	216.06
9.00	1980	13,100	1,300	212.40	244.44	1,310.00	148.92	146.66	57.25	240.58
9.90	1981	14,700	1,400	239.40	274.31	1,470.00	165.78	164.59	62.91	268.64
12.30	1982	16,500	1,600	268.20	307.65	1,650.00	186.05	184.59	70.68	301.42
11.20	1983	18,500	1,800	300.60	345.15	1,850.00	208.03	207.09	78.60	337.46
6.70	1984	20,800	2,000	338.40	387.50	2,080.00	229.18	232.50	83.87	374.70
4.40	1985	23,400	2,300	379.80	435.42	2,340.00	250.84	261.25	87.56	414.13
4.00	1986	25,800	2,500	419.40	486.11	2,580.00	273.35	291.67	91.06	455.64
4.10	1987	25,900	2,500	444.60	521.52	2,590.00	290.36	312.91	94.79	634.09
4.40	1988	26,500	2,600	478.00	543.06	2,650.00	302.61	325.84	98.96	660.94
4.10	1989	27,700	2,700	525.00	556.25	2,770.00	315.02	339.20	103.02	681.25
4.80	1990	28,900	2,800	574.20	577.08	2,890.00	324.37	346.25	107.96	709.52
4.80	1991	30,500	3,000	632.50	604.86	3,050.00	339.96	362.92	113.14	743.64
5.80	1992	32,200	3,200	696.00	636.11	3,220.00	358.67	381.67	154.70	738.89
1.80	1993	33,400	3,300	752.50	667.36	3,340.00	372.11	400.42	157.48	812.85
1.90	1994	34,400	3,400	806.00	694.44	3,440.00	384.59	416.66	160.47	839.09
0.50	1995	34,900	3,400	850.50	713.19	3,490.06	392.24	427.91	161.27	854.74
1.018	1996	35,400	3,500	893.20	727.08	3,540.00	399.70	436.25	164.17	870.92
1.50	1997	35,800	3,500	944.78	736.81	3,580.00	405.25	442.09	166.63	883.10
1.90	1998	36,900	3,500	1,068.00	744.79	2,500.00	410.70	446.87	169.80	895.36
0.90	1999	37,400	3,500	1,186.50	751.67	2,500.00	414.46	451.00	171.33	903.55
1.60	2000	37,600	3,500	1,329.90	762.92	2,500.00	420.86	457.75	174.07	917.43
2.50	2001	38,300	3,500	1,496.40	775.00	2,500.00	432.56	465.00	178.42	935.12
3.00	2002	39,100	3,500	1,673.20	788.75	2,500.00	437.99	473.25	183.77	956.05
1.60	2003	39,900	3,500	1,801.80	801.25	2,500.00	444.96	480.70	186.71	971.26
3.20	2004	40,500	3,500	1,831.50	814.17	2,500.00	454.42	488.50	192.65	992.80
1.70	2005	41,100	3,500	1,861.20	828.75	2,500.00	462.42	497.25	195.96	1,010.23
2.30	2006	42,100	3,500	1,910.70	844.58	2,500.00	471.85	506.75	200.47	1,031.05
2.10	2007	43,700	3,500	1,989.90	863.75	2,500.00	482.30	518.25	204.68	1,053.77
2.00	2008	44,900	3,500	2,049.30	884.58	2,500.00	493.28	530.75	208.77	1,077.52
	2009	46,300	3,500	2,188.60	908.75	2,500.00	506.38	545.25	213.99	1,105.99
	2010	47,200	3,500	2,163.15	934.17	2,500.00	516.57	560.50	214.85	1,126.76

The maximum self-employed contribution is twice the amount shown for the employee-employer contribution.

COMMON-LAW RELATIONSHIPS

Spouse is defined as the person who is legally married to the contributor. A common-law partner is the person who was living with the contributor and who had been living in a marriage-like relationship for at least 12 months. This includes same-sex partners.

Example: Judy and Pat divorced after being married for 20 years. During the marriage, Judy was not in the paid labour force, and therefore did not contribute to the Canada Pension Plan.

Upon their divorce, Judy applied to have the credits Pat earned during the course of the marriage divided equally. After the division, Judy would receive an equal amount of the credits. When Judy reaches retirement age, these credits will provide her with a retirement. If she becomes disabled, she may qualify for a disability benefit.

The period of separation must be at least 12 consecutive months. An application must be made within 4 years of the date of separation in order to initiate credit splitting.

This Factsheet was authored by Gary Mawhiney, Human Resource Management Program Lead, OMAFRA, Guelph.

OTHER RESOURCES

This Factsheet is intended to serve as a guide to the Canada Pension Plan and not as expert advice. Additional information may be obtained by contacting your financial advisor or Service Canada Income Security Programs.

Service Canada Income Security Programs
1-800-277-9914 (English)
1-800-277-9915 (French)

English:
www.sdc.gc.ca/en/gateways/nav/top_nav/program/isp.shtml
French:
www.rhdsc.gc.ca/fr/passerelles/nav/nav_haut/programme/psr.shtml

www.servicecanada.gc.ca

FOR YOUR NOTES

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